



ARNOLD SCHWARZENEGGER, GOVERNOR

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December 22, 2008

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

Final Report—G-C Lubricants Company, California Used Oil Recycling Fees

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Used Oil Recycling Fee Returns submitted by G-C Lubricants Company for the period July 1, 2005 through June 30, 2008.

The enclosed report is for your information and use. After review of the draft report, G-C Lubricants Company chose not to provide a written response. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of G-C Lubricants Company. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Zach Stacy, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Shirley Willd-Wagner, Manager, Financial Assistance Division, California Integrated Waste Management Board
Ms. Julie Arico, Accounting Administrator, Administration and Finance Division, California Integrated Waste Management Board
Mr. George Mendoza, Audit Manager, Administration and Finance Division, California Integrated Waste Management Board
Ms. Susan Villa, Branch Manager, Administrative and Finance Division, California Integrated Waste Management Board
Mr. Robert Wisgo, General Manager, G-C Lubricants Company
Mr. Matt Colvin, Chief Financial Officer, G-C Lubricants Company

AN OIL RECYCLING FEE AUDIT

G-C Lubricants Company Used Oil Recycling Fee Returns For the Period July 1, 2005 through June 30, 2008

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE AUDIT TEAM

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Manager

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This final report is available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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EXECUTIVE SUMMARY

In accordance with an interagency agreement with the California Integrated Waste Management Board (Board), the Department of Finance, Office of State Audits and Evaluations, performed a compliance audit of the used oil recycling fees and industrial oil sales reported by G-C Lubricants Company (G-C Lube).

The objective of the audit was to determine whether G-C Lube accurately reported industrial and lubricating oil sold, transferred, or used in California, and remitted the proper fees owed in accordance with the California Oil Recycling Enhancement Act for the period July 1, 2005 through June 30, 2008. The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Bond Audit Results, G-C Lube underreported 99,825 gallons of lubricating oil which resulted in an underpayment of \$15,972 in used oil recycling fees.

This report is intended for the information and use of G-C Lube and the Board and is not intended to be and should not be used by anyone other than the specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

BACKGROUND, SCOPE, AND METHODOLOGY

Background

The Legislature enacted the California Oil Recycling Enhancement Act (Act) (Public Resources Code Sections 48600 through 48691) to reduce illegal disposal of used oil, and to recycle and reclaim used oil in order to recover valuable natural resources, and to avoid damage to the environment and threats to public health. This Act gives the California Integrated Waste Management Board (Board) the authority to adopt and implement a used oil recycling program, and to collect fees from oil manufacturers at a rate of 16 cents for each gallon of lubricating oil sold, transferred, or used in California. These fees support the California Used Oil Recycling Fund from which various state and local programs are operated. These programs help promote local efforts to recycle used oil before harmful environmental impacts can occur. G-C Lubricants Company (G-C Lube), located in San Carlos, California and a unit of Garratt-Callahan Company, manufactures lubricating oils and greases.

Scope

The Department of Finance, Office of State Audits and Evaluations, conducted a compliance audit of the California Used Oil Recycling Fee Returns submitted to the Board. The objective of the audit was to determine whether G-C Lube accurately reported the industrial and lubricating oil sold, transferred, or used in California, and remitted the proper fees in accordance with the terms and conditions of the Act for the period July 1, 2005 through June 30, 2008.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In order to design adequate procedures to evaluate the California Used Oil Recycling Fee Returns, we obtained an understanding of the related internal controls. G-C Lube is responsible for ensuring accurate reporting of the used oil recycling fees and oil sales and ensuring compliance with the Act.

Methodology

To determine whether G-C Lube reported the used oil recycling fees and oil sales in accordance with the terms and conditions of the Act, we performed the following procedures:

- Interviewed key personnel.
- Obtained an understanding of the internal controls related to the preparation of the California Used Oil Recycling Fee Returns (Returns).
- Obtained an understanding of the information system used for accounting, inventory, and sales.
- Reviewed G-C Lube's accounting records and other reports.
- Reviewed the customer master list to determine completeness in reporting California sales.

- Reviewed the product list of lubrication and industrial oil to determine completeness in reporting California sales.
- Traced the gallons of industrial and lubrication oil sold in California reported on the Returns to purchase orders, delivery tickets, bills of lading, invoices, and other relevant documents.
- Determined whether valid exemption certificates were on file for exempt transactions claimed on the Returns.

The results of the audit are based upon our review of documentation and other information made available to us. The audit was conducted August 2008 through November 2008.

The Department of Finance, Office of State Audits and Evaluations, completed an audit of the California Used Oil Recycling Fee Returns (Returns). Based on the audit procedures performed, the following finding requiring corrective action was identified.

FINDING Lubricating Oil Sales Were Inaccurately Reported in the Returns Resulting in \$15,972 Underpayment of Fees

Condition: G-C Lubricants Company (G-C Lube) under reported 99,825 gallons of lubricating oil sold, resulting in a \$15,972 underpayment of the used oil recycling fees, as illustrated in the table below:

- G-C Lube omitted 92,485 gallons of automatic transmission fluids which are subject to the recycling fee because the automatic transmission fluids were not flagged as taxable items in the information system. The California Public Resource Code (CPRC), Section 48618 states that any oil intended for use in a transmission qualifies as lubricating oil. CPRC states that every oil manufacturer shall pay to the California Integrated Waste Management Board (Board) 16 cents per gallon of lubricating oil sold or transferred in California.
- G-C Lube failed to obtain export exemption certificates for 6,435 gallons of lubricating oil sold to one California customer. The California Code of Regulations, Title 14, Section 18626 states that all sales or transfers of lubricating oil in the state by an oil manufacturer are subject to oil recycling fees unless exempted. A seller is exempt from responsibility for the fee when the purchaser certifies in writing to the seller in a timely manner that the lubricating oil will be used in an exempt manner.
- Calculation errors resulted in the under reporting of 905 gallons of lubricating oil. The CPRC, Section 48671 states that every oil manufacturer who sells, or offers to sell, industrial or lubricating oil in California shall report to the Board each month the amount of industrial and lubricating oil sold. Standard business practices require that this information be reported accurately.

G-C Lubricants Company Used Oil Recycling Fee Returns For the Period July 1, 2005 through June 30, 2008			
Categories	Sales and Fees Per Fee Payer Returns	Audited Sales and Fees	Over/(Under Reported)
Industrial Oil Sold (Gallons)	443,679	443,679	0
Gross Lubrication Oil Sold (Gallons)	1,294,378	1,394,203	(99,825)
Less: Exempt Transactions (Gallons)	0	0	0
Total Lubrication Oil Sold (Gallons Subject to Fee)	1,294,378	1,394,203	(99,825)
Lubrication Oil Fees (\$0.16 per gallon)	\$207,100	\$223,072	(\$15,972)

Recommendations: G-C Lube should perform the following:

- Ensure that the product list for items subject to the California used oil recycling fee is accurate and complete.
- For exemption eligibility, obtain exemption certificates from California purchasers for lubricating oil that will be used in an exempt manner.
- Remit under reported fees of \$15,972 to the Board.